

**Department of Children's Services**

**For the Year Ended  
June 30, 2001**

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STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
State Capitol  
Nashville, Tennessee 37243-0260  
(615) 741-2501

**John G. Morgan**  
Comptroller

March 14, 2002

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable George Hattaway, Commissioner  
Department of Children's Services  
Cordell Hull Building, Seventh Floor  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Department of Children's Services for the year ended June 30, 2001.

The review of management's controls and compliance with policies, procedures, laws, and regulations resulted in certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report.

Sincerely,

John G. Morgan  
Comptroller of the Treasury

JGM/cj  
01/123



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COMPTROLLER OF THE TREASURY  
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December 4, 2001

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the year ended June 30, 2001.

We conducted our audit in accordance with government auditing standards generally accepted in the United States of America. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and instances of noncompliance to the Department of Children's Services' management in a separate letter.

Sincerely,

Arthur A. Hayes, Jr., CPA,  
Director

AAH/cj

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**Department of Children's Services**  
For the Year Ended June 30, 2001

## AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 2000, through June 30, 2001. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2001, and the Tennessee Single Audit Report for the same period. Those areas included the Medical Assistance Program (contract with TennCare), the Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of contracts, student and social security trust funds, information systems, cash receipts, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

## AUDIT FINDINGS

### **Children's Services Inappropriately Requested and Received Reimbursement of \$1,757,565 From TennCare for Children Not Eligible for TennCare Services\*\***

As noted in the prior four audits, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. In addition, as noted in the prior two audits, Children's Services is also billing for other categories of ineligible children. This includes children not in state custody, children in state custody but on runaway status, and children under the age of three. In addition, as noted in the prior audit, there were problems with billings

for hospitalized children and for drug and alcohol treatment (page 7).

### **Children's Services Did Not Have a Reasonable System to Determine Medical Treatment Costs Associated With Providing Services to Children in the State's Care \*\***

As noted in the prior three audits, the Department of Children's Services did not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for these children. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs (page 13).

**The Department Established Improper and Ineffective Employer-Employee Relationships \*\***

As noted in the prior three audits, Children's Services has entered into contracts with Community Services Agencies (CSAs) to assist in implementing various state programs. Through these contracts, CSA employees are directly supervised by state officials (page 24).

**Case Files Do Not Contain Adequate Documentation \*\***

As noted in the prior two audits, the department did not have adequate documentation in each child's case file showing case manager contact with the child, family, or other individuals. In 32 of 116 case files tested (28%), there were substantial gaps in time between case recordings documenting case manager contacts. Time lapses between entries in case notes ranged from 35 to 560 days (page 20).

**The Department Did Not Perform Reconciliations Related to Trust Fund Accounts of Children Receiving Federal Benefits and Did Not Return Funds to the Social Security Administration Timely \*\***

As noted in the prior three audits, the department did not perform reconciliations related to Social Security trust funds and did not return funds to the Social Security Administration timely (page 29).

\* This finding is repeated from the prior audit.

\*\* This finding is repeated from prior audits.

**Department Employees' Access to the State's Computer Systems Was Not Adequately Controlled**

The department did not promptly cancel terminated employees' Resource Access Control Facility IDs and access to the State of Tennessee Accounting and Reporting System (page 32).

**The Department Did Not Process Journal Vouchers Promptly, Resulting in Lost Interest on Amounts That Were Billed to the Federal Government \*\***

As noted in the five previous audits, journal vouchers used to record expenditure and revenue transactions between state departments were not always processed promptly in accordance with Finance and Administration Policy 18 (page 36).

**Uncollected Overpayments Due From Foster Care and Adoption Assistance Parents Totaled at Least \$1,178,416 \*\***

As noted in the seven previous audits, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents (page 38).

**The Department Has Not Promulgated Rules and Regulations for Community Services Agencies \***

As noted in the prior audit, the department has not promulgated rules and regulations for Community Services Agencies as required by *Tennessee Code Annotated* (page 39).

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"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

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**Audit Report**  
**Department of Children's Services**  
**For the Year Ended June 30, 2001**

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# **Department of Children's Services For the Year Ended June 30, 2001**

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## **INTRODUCTION**

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### **POST-AUDIT AUTHORITY**

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

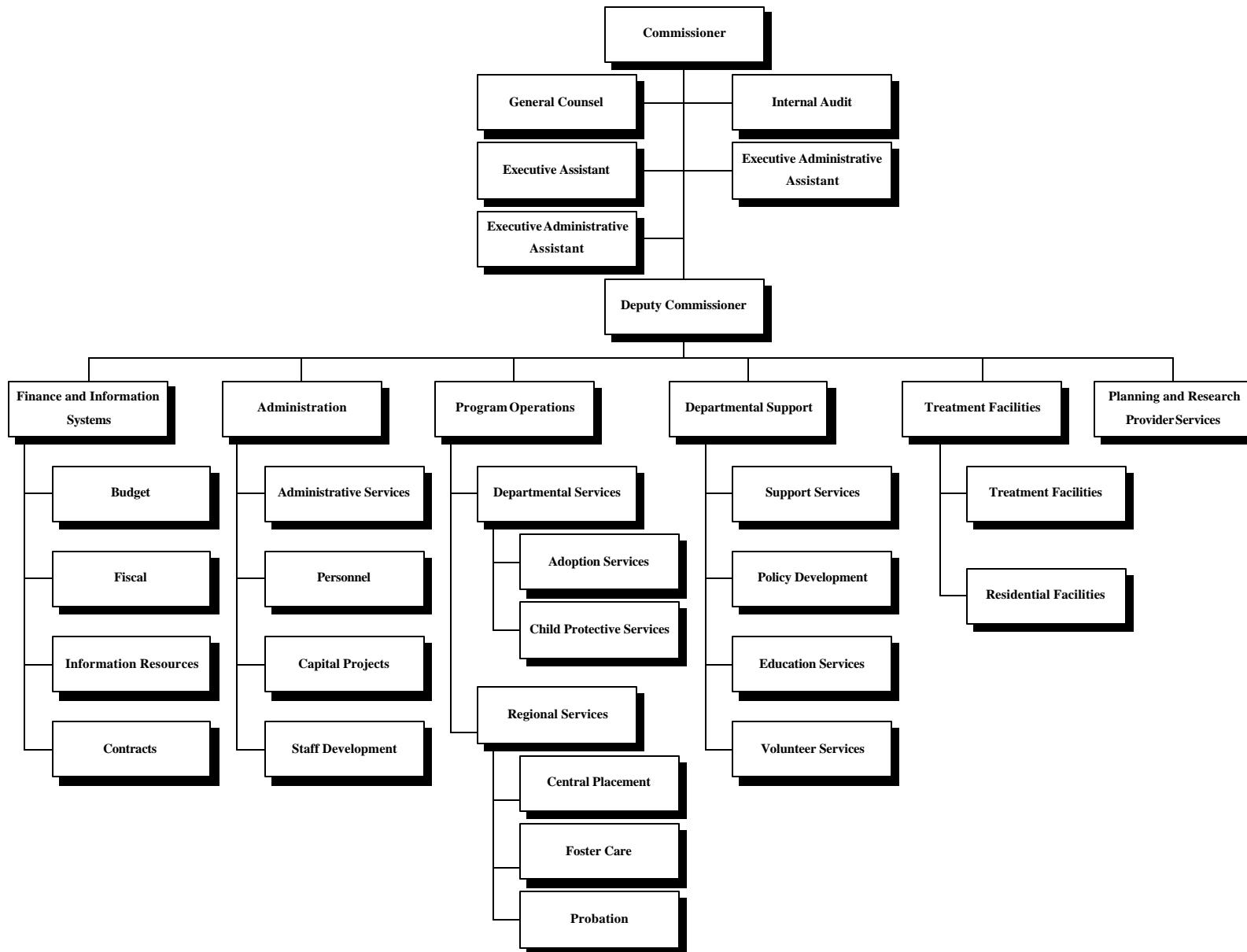
### **BACKGROUND**

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

In collaboration with juvenile courts, local communities, schools, families, and other state agencies, it is the mission of the Department of Children's Services to provide timely, appropriate, and cost-effective services to children in state custody and at risk of custody so these children can strive to reach their full potential as productive, competent, and healthy adults. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

An organization chart of the department is on the following page.

# Department of Children's Services



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## AUDIT SCOPE

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We have audited the Department of Children's Services for the period July 1, 2000, through June 30, 2001. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 2001, and to the Tennessee Single Audit Report for the same period. Those areas included the Medical Assistance Program (contract with TennCare), Social Services Block Grant, and the Title IV-E programs (Foster Care and Adoption Assistance). In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of contracts, student and Social Security trust funds, information systems, cash receipts, disbursements, accounts receivable, rules and regulations for Community Services Agencies, and utilization of the Department of Finance and Administration's State of Tennessee Accounting and Reporting System (STARS) grants module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America.

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## PRIOR AUDIT FINDINGS

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Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on August 31, 2001. A follow-up of all prior audit findings was conducted as part of the current audit.

## RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning

- committing funds without approval,
- not performing monthly accountings for Social Security trust funds,
- TNKIDS and CORS data integrity and user-accountability issues,
- inadequate cash-receipting controls, and
- overpayments made to foster parents.

## **REPEATED AUDIT FINDINGS**

The prior audit report also contained findings concerning

- inappropriate billings to TennCare for children not eligible for TennCare services;
- inadequate system to determine medical treatment costs billed to TennCare;
- lack of formal procedures for collecting overpayments;
- inadequate documentation of case manager contact with the child, family, or other individuals;
- prompt processing of journal vouchers;
- improper employer-employee relationships;
- incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records;
- lack of rules and regulations for Community Services Agencies; and
- appropriate grants not being charged when initial transactions are recorded.

These findings have not been resolved and are repeated in the applicable sections of this report.

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## **OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS**

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### **AREAS RELATED TO TENNESSEE'S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT**

Our audit of the Department of Children's Services is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee's general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state's internal control and determine whether the state complied with laws and regulations that have a material effect on the state's general-purpose financial statements.

Our audit of the Department of Children's Services is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and

- the state has internal control to provide reasonable assurance that it is managing its major federal programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Children's Services were material to the CAFR and to the Single Audit Report: Medical Assistance Program (contract with TennCare), Social Services Block Grant (SSBG), and Title IV-E (Foster Care and Adoption Assistance programs).

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these four major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions. For further discussion, see the applicable sections (Medical Assistance Program [Contract With TennCare] and Social Services Block Grant and Title IV-E Programs).

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 2001, and have issued our report thereon dated December 4, 2001. The opinion on the financial statements is unqualified. The Tennessee Single Audit Report for the year ended June 30, 2001, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations. These reports include reportable conditions and material weaknesses resulting from this audit.

The audit of the department revealed the following findings in areas related to the CAFR:

- Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,178,416 are due from foster care and adoption assistance parents.
- Children's Services inappropriately requested and received reimbursement of \$1,757,565 from TennCare for children not eligible for TennCare services.
- Children's Services did not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care.
- Department employees' access to the state's computer systems was not adequately controlled.

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#### **MEDICAL ASSISTANCE PROGRAM (CONTRACT WITH TENNCARE)**

The Department of Children's Services (DCS) is a subrecipient of the Department of Finance and Administration, Bureau of TennCare. In accordance with its agreement with TennCare, Children's Services contracts separately with various practitioners and entities (service providers) to provide Medicaid services not covered by the managed care organizations (MCOs) and the behavioral health organizations (BHOs) that are also under contract with TennCare. Children's Services pays these service providers for Medicaid services (enhanced behavioral health services) and non-Medicaid services (housing, meals, and education) directly. Children's Services is to bill TennCare for the

reimbursement of only the Medicaid services. Our primary objective was to determine whether Children's Services was in compliance with the provisions of its agreement with TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2001. Our specific objectives were to follow up on prior audit findings concerning inappropriate billings to TennCare, committing funds without approval, and an inadequate system to determine medical treatment costs billed to TennCare; and to determine whether the following types of costs were billed to TennCare:

- costs for incarcerated youth,
- costs for children not in the state's custody,
- Hometies costs,
- costs related to children on runaway status,
- costs for individuals over the age of 21,
- costs for behavioral health services provided to children under the age of three,
- costs for hospitalized children, and
- drug and alcohol treatment costs not in accordance with the department's agreement with TennCare.

Other objectives included whether the department had an approved contract in place with TennCare prior to services being provided, whether targeted case management billings were appropriate, and whether the department has a reasonable system to determine medical treatment costs that are billed to TennCare.

We interviewed key personnel, reviewed the contract between Children's Services and TennCare, and reviewed the TennCare waiver and the State Plan. We used computer-assisted audit techniques to compare TennCare's paid claim records to records from DCS's Tennessee Kids Information Delivery System (TNKIDS) to identify inappropriate costs billed to TennCare. We also tested a nonstatistical sample of billings to TennCare to determine that the amount charged for medical treatment costs, including targeted case management, was within DCS guidelines.

The results of our interviews and testwork indicated that the Department of Children's Services had an approved contract in place with TennCare prior to services being provided. Furthermore, we determined that the department had not billed Hometies costs and costs associated with individuals over the age of 21 to TennCare. However, the department has requested and received reimbursement from TennCare for the remainder of the above mentioned cost of services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2001, as noted in finding 1. In addition, our review indicated that the department billed for targeted case management services not provided (finding 1), and that it does not have a reasonable system to determine medical treatment costs that are billed to TennCare and associated with providing services to children in the state's care (finding 2).

## Findings, Recommendations, and Management's Comments

### 1. Children's Services inappropriately requested and received reimbursement of \$1,757,565 from TennCare for children not eligible for TennCare services

#### Finding

The Department of Children's Services (DCS) has requested and received reimbursement from TennCare for services provided outside the scope of its agreement with the Bureau of TennCare, the TennCare waiver, and the State Plan during the year ended June 30, 2001.

This is a repeat finding that was addressed by the U.S. Department of Health and Human Services (HHS) in a letter to the Commissioner of the Department of Finance and Administration regarding the Single Audit of the State of Tennessee for the period July 1, 1998, through June 30, 1999. In the letter, HHS stated:

This is a material instance of noncompliance and a material weakness. We recommend procedures be implemented to ensure federal funds are not used to pay for 1) health care costs of children who are in youth development or detention centers, not in State custody, on runaway status, . . . 2) behavioral health services for children under the age of three, . . .

Although the department has made substantial progress in reducing reimbursements for services provided outside the scope of its agreement with TennCare, there were still the following areas where inappropriate reimbursements occurred.

#### Payments for Incarcerated Youth

As noted in the prior four audits, and despite management's concurrence with the findings, Children's Services continued to request and receive reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. Under federal regulations (*Code of Federal Regulations*, Title 42, Part 435, Sections 1008 and 1009), delinquent children who are placed in correctional facilities operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of juvenile and adult inmates.

In response to the prior audit finding, management stated, "For services that were incorrectly billed to TennCare, the department will examine its control structure and make changes as necessary to prevent future billings of this manner." However, using computer-assisted audit techniques, our search of TennCare's paid claims records revealed that TennCare was inappropriately billed for and made payments totaling at least \$254,880 from July 1, 2000, through June 30, 2001, for juveniles in youth development centers and detention centers. The prior audit finding disclosed inappropriate billings of \$813,270 from July 1, 1999, through June 30, 2000.

### Children Not in State Custody

As noted in the prior two audits, Children's Services inappropriately billed and received payment from TennCare for children not in state custody. Management partially concurred with this portion of the prior finding and attributed the problem to a misunderstanding regarding TennCare coverage related to a pilot program and noted that corrective actions had been taken. Management felt that the majority of the other children were in fact in custody. Management pointed to delays in court proceedings when children in "physical custody" are removed from a home by Child Protective Services, thereby delaying a court order declaring a child in "legal custody" of the department. Management stated that several days might pass before the department receives a written court order. In addition, management described how the TNKIDS system is able to record a "physical custody" date whereas the previous database used could only document the "legal custody" date for a child. In our rebuttal, we stated that it was possible that some of the costs questioned included payments for children in protective custody and short delays in court proceedings. Management did not provide any information to support specific charges that were questioned.

TennCare contracts with DCS to provide the necessary TennCare enhanced behavioral health services for children in state custody. All behavioral services for children not in state custody should be provided through the TennCare Behavioral Health Organizations (BHOs). Using computer-assisted audit techniques, we performed a data match comparing payment data on the Bureau of TennCare's system to custody records from DCS's Tennessee Kids Information Delivery System (TNKIDS). The results of the data match indicated that DCS had improperly billed TennCare \$363,800 from July 1, 2000, through June 30, 2001, for services to children who were not in the state's custody. The prior audit finding disclosed inappropriate billings of \$3,512,975 from July 1, 1999, through June 30, 2000.

In addition, the data match performed above resulted in a listing totaling \$4,590,432 in billings where the names, dates of birth, and/or social security numbers did not match with TNKIDS. A sample of 60 children from this listing representing \$453,194 of the above total was selected for further analysis. Further review of these names revealed that all 60 children had a record in TNKIDS. The results of the testwork performed on the sample disclosed that \$47,821 was paid for dates of services during which time these children were not in custody according to the related records in TNKIDS.

### Children on Runaway Status

As noted in the prior two audits, Children's Services inappropriately billed and received payment for children who are in the state's custody but are on runaway status. Since TennCare is permitted to pay only for actual treatment costs, TennCare should not be billed for services that were not provided while children were on runaway status. In response to the prior audit finding, management stated, "The department put controls in place to eliminate billing TennCare for children on runaway status on April 28, 2000." Management further stated that it "will continue to evaluate whether the controls in place will remedy the situation or whether additional controls are needed." Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to runaway records from DCS's TNKIDS system. The results of the data match indicated that DCS had improperly billed TennCare \$266,670 from July 1, 2000, through June 30, 2001, for

services to children on runaway status. The prior audit finding disclosed inappropriate billings of \$827,010 from July 1, 1999, through June 30, 2000.

#### Payments for Services Provided to Children Under Three Years

As noted in the prior two audits, the department has inappropriately billed and received payment from TennCare for behavioral health services provided to children under the age of three. In accordance with the TennCare waiver and the State Plan, Children's Services should bill and receive reimbursement from TennCare only for children who receive Medicaid services. Management did not concur with this portion of the prior audit finding and stated,

DCS will examine the process available to appeal this finding with HCFA [Health Care Financing Administration] through TennCare. Until a ruling can be determined by that process, the department will make modifications to the accounting system to disallow billing children under 3 to TennCare. This population will be served by using state funding until an approval from HCFA is received.

In our rebuttal, we noted that the U.S. Department of Health and Human Services' response to the prior Single Audit of the State of Tennessee confirmed that federal funds should not be used to pay for behavioral health services for children under the age of three.

Using computer-assisted audit techniques, auditors performed a data match comparing payment data from the Bureau of TennCare to date-of-birth records from DCS's TNKIDS system. The results of the data match indicated that DCS had billed TennCare \$1,142,312 from July 1, 2000, through June 30, 2001, for behavioral services for children under the age of three. The department attempted corrective action by reimbursement and voiding transactions. An analysis of 292 claims totaling \$170,739 revealed that 232 were properly voided and reimbursed. However, the remaining 60 claims (21%) totaling \$13,020 had not been properly voided or reimbursed.

#### Hospitalized Children

As noted in the prior audit, Children's Services inappropriately billed and received payment for children who are in the state's custody but had been placed in a medical hospital. The managed care organizations (MCOs) are responsible for costs incurred while the child is placed in a hospital. Children's Services' provider policy manual allows service providers to bill Children's Services for seven days if the provider plans to take the child back after hospitalization. If the provider has written approval from the Regional Administrator, the provider may bill DCS for up to 21 days while the child is in the hospital, but Children's Services cannot bill TennCare for those days.

In response to the prior audit finding, management stated, "The department will discontinue billing TennCare for hospitalized children until further investigation into the matter can be performed." However, using computer-assisted audit techniques, auditors performed a data match comparing TennCare's payment data to medical records from the MCOs. The results of the data match indicated that DCS had improperly billed TennCare \$42,151 from July 1, 2000, through June 30, 2001, for

children while they were in hospitals. The prior audit finding disclosed inappropriate billings of \$1,999,313 from July 1, 1999, through June 30, 2000.

#### Alcohol and Drug Treatment

As noted in the prior audit, Children's Services incorrectly billed and received payment from TennCare for alcohol and drug treatment provided to children in state custody. BHOs are contractually responsible for the first \$30,000 of such expenditures per child. Neither Children's Services nor TennCare has a mechanism for identifying children who have already received \$30,000 of these services provided by the BHOs. In response to the prior audit finding, management stated,

Since TennCare does not have a mechanism to monitor and provide notification to DCS the dollar amount of alcohol and drug treatment, the department will request that the current restrictive language in the contract be amended to clarify that the BHO provides all acute inpatient services. DCS provides all residential treatment services.

Children's Services billed TennCare \$769,055 from July 1, 2000, through June 30, 2001, for these services. The prior audit finding disclosed billings of \$3,722,966 from July 1, 1999, through June 30, 2000. Contract changes beginning July 1, 2001, state that TennCare-eligible children in custody will receive medically necessary behavioral health services from the assigned BHO, with the exception of residential services (including continuum services) which are provided by DCS.

#### Targeted Case Management

The Department of Children's Services bills and receives reimbursement from TennCare for targeted case management, which reimburses DCS for TennCare's share of costs associated with providing case management services for children in the state's custody. Targeted case management includes, but is not limited to, case manager visits with children, developing permanency plans, maintaining case files, and arranging TennCare-related services such as health screenings and behavioral health services. DCS bills TennCare a daily rate for each child in its custody who has been assigned a case manager. Targeted case management billings to TennCare were over \$50 million for the fiscal year. We selected a sample of 30 children who were billed to TennCare for targeted case management. Based on the testwork performed, there was no evidence that case management was provided to one of 30 children tested (3.3%) during the dates of service specified on the billing. Questioned costs total \$168. We believe likely federal questioned costs exceed \$10,000 for this condition.

Questioned costs associated with the instances of noncompliance reported in this finding, except those associated with targeted case management, are reported in the Department of Finance and Administration's audit report and in the TennCare findings in the Tennessee Single Audit report for the year ended June 30, 2001.

## **Recommendation**

The Commissioner should continue to develop and implement procedures necessary to ensure that TennCare is not billed for inappropriate expenses related to children in youth development and detention centers, not in state custody, on runaway status, placed in hospitals, under the age of three, or for children who have not received \$30,000 of drug and alcohol services provided by the BHOs. In addition, targeted case management rates and billings should be based on children receiving targeted case management services. Effective internal control requires that management have systems in place to adequately monitor operations, particularly relating to such compliance issues. Management could develop the information necessary to detect these discrepancies by using the types of computer analyses auditors have used to identify these problems. The Commissioner should monitor the implementation of corrective measures and evaluate their effectiveness. Management should make it a priority to bill TennCare only for allowable services provided to eligible children.

## **Management's Comment**

We concur in part.

### Payments for Incarcerated Youth

The department is pleased that the questioned costs for this category have been reduced from \$813,270 in fiscal year 2000 to \$254,880 in fiscal year 2001. This represents a reduction of 68%. The department has not had adequate time to analyze all transactions provided by the auditors for payments for incarcerated youth. A couple of the possible causes could be that detention center contracts are being billed to TennCare or the placement history in TNKIDS is inaccurate. The department will have to determine what the underlying causes are before corrective action for this category can be taken. Once the department determines what the underlying causes are, management will make adjustments to the department's control structure.

### Children Not in State Custody

As to the auditor's listing of other children who they believe were not in custody, the department submits that some of these children were in fact in custody. When a child is removed from his/her home in an emergency, there is to be a hearing within 72 hours. *Tenn. Code Ann.* §§37-1-113 and 37-1-114 make clear that a child is in legal custody when a social worker from DCS or a law enforcement officer removes the child from the home, even before a court has issued an order. Section 37-1-115 further provides that a child may be taken into custody, but then returned to the parent(s), guardian or other custodian pending the hearing. Moreover, there are circumstances when a child is taken into custody, but the court finds that continued custody is not warranted, resulting in no court action ordering custody even though the child was in fact in legal custody. See §§37-1-11 and 37-1-129(a).

### Children on Runaway Status

The department is pleased that the questioned costs for this category have been reduced from \$827,010 in fiscal year 2000 to \$266,670 in fiscal year 2001. This represents a reduction in questioned cost of 67%. The department has not had adequate time to analyze every transaction on the

data match provided by State Audit. However, in our initial analysis, there appear to be two main causes for the children to appear on the data match. It appears that the runaway placement was not always entered correctly in TNKIDS. Therefore, a child could appear on runaway status when, in fact, they are not on runaway status. There also appears to be an issue with the invoice approval process. It appears that the approvers may not always catch coding errors on the invoices submitted by the vendors. Management will continue to analyze the data match and evaluate what additional controls are needed.

#### Payments for Services Provided to Children Under Three Years

The department still does not concur that children under three years of age cannot receive behavioral health services. Information provided by Public Consulting Group indicates that this population can and does receive behavioral services, which are funded by HCFA, in other states. DCS will continue to pursue an appeal of this finding with HCFA through TennCare. Until a ruling can be determined by that process, the department has already made modifications to the accounting system to disallow billing children under three to TennCare. This population will be served by using state funding until an approval from HCFA is received. In determining whether a child is less than three years of age, the department uses the date of birth from the invoice submitted by the vendor and approved by field staff. Part of the approval process is to determine whether the date of birth is correct on the invoice. It appears that for the children in question date of birth on the invoice does not agree to the date of birth showing in TNKIDS. The TNKIDS date of birth is indicating they are under three years of age at the date of service, while the date of birth on the invoices is indicating they are over three years of age at the date of service. The department will investigate to determine which date of birth is accurate and will make any necessary refunds to TennCare.

#### Hospitalized Children

The department is pleased that the questioned costs for this category have been reduced from \$1,999,313 in fiscal year 2000 to \$42,151 in fiscal year 2001. This represents a reduction in questioned cost of 97%. The department has not had adequate time to analyze all transactions of the data match of hospitalized children. However, we believe that the \$42,151 is attributable to transactions that were processed before our control was put into place. The department will continue to monitor hospitalized children to ensure that our current control structure is sufficient.

#### Alcohol and Drug Treatment

TennCare does not have a mechanism to monitor and provide notification to DCS of the dollar amount of alcohol and drug treatment. As stated in the finding, the fiscal year 2002 contract contains language that clarifies that the BHO provides all acute inpatient services, and DCS provides all residential treatment services.

#### Targeted Case Management

Management believes that the vast majority of the children in its custody receive services that fall under the definition of targeted case management. However, it does appear for this one child that the services provided do not fall under the definition of targeted case management. Management does believe that this was an isolated incident and is not a systematic problem.

## **Rebuttal**

### Children Not in State Custody

Although it is possible that some of the costs questioned included payments for children removed from homes in emergency situations and short delays in court proceedings, management did not provide any information to support specific charges that were questioned. Management should continue to investigate this matter, obtain documentation, and provide the grantor with such data during the resolution process.

### Payments for Services Provided to Children Under Three Years

As previously stated, the U.S. Department of Health and Human Services' response to the 1999 Single Audit of the State of Tennessee confirmed that federal funds should not be used to pay for behavioral health services for children under the age of three.

## **2. Children's Services did not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care**

### **Finding**

As noted in the prior three audits covering the period July 1, 1997, through June 30, 2000, the Department of Children's Services (DCS) did not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. DCS completed a new time and cost study in January of 2000, which is to serve as the methodology for determining actual costs associated with the treatment of children in its custody. On November 5, 2001, the federal Department of Health and Human Services' Division of Cost Allocation approved Amendment 00-1 to the department's cost allocation plan, effective July 1, 2000. This amendment, which establishes standard rates based on levels of service to be billed to TennCare and documents the methodology for determining those rates, is awaiting implementation and retroactive application.

During the audit period, the department's basis for billing TennCare was a 1991-92 cost analysis study of all the treatment facilities providing services to DCS, which was performed by an independent contractor. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set rates of approximately 45% to 50% of the facility's charge for the treatment portion of service. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs.

Testwork performed on the billing procedures revealed that in 23 of the 30 billings tested (77%), the amount billed to TennCare for treatment costs did not comply with the billing percentages described above. DCS could not substantiate the rates being used. In many instances, the department was billing TennCare 70% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program during the audit period.

### **Recommendation**

The department should promptly implement the approved cost allocation plan. Furthermore, the department should develop a strategy to retroactively apply the cost allocation plan, effective July 1, 2000. This strategy must consider the effects of application on the revenues and expenditures of both federal and state programs and ensure that all adjustments pertaining to the retroactive application are adequately documented.

### **Management's Comment**

We concur. As stated in the finding, the department received approval from the federal government in November 2001 to apply the methodology it developed. The required adjustments to implement these new rates retroactively to July 2000 will be complicated and time consuming. The method used to make the required adjustments will require a thorough analysis prior to implementation in order to minimize the probability of errors. These expenditures were funded from several funding sources, which means all the various funding sources will need adjustments. In addition, contracts which were in place during the development of the methodology have changed in structure requiring an analysis of how each has changed and what effect that change will have on the required adjustments. The department is dedicated to making the required retroactive adjustments as timely as possible; however, accuracy of the adjustments is just as imperative as the timeliness issue.

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## **SOCIAL SERVICES BLOCK GRANT AND TITLE IV-E PROGRAMS**

The Social Services Block Grant (SSBG) and Title IV-E (Foster Care and Adoption Assistance) are federal programs administered by the United States Department of Health and Human Services. SSBG funds may be used to provide services directed toward one of the following five goals specified in the law: (1) to prevent, reduce, or eliminate dependency; (2) to achieve or maintain self-sufficiency; (3) to prevent neglect, abuse, or exploitation of children and adults; (4) to prevent or reduce inappropriate institutional care; and (5) to secure admission or referral for institutional care when other forms of care are not appropriate. The objective of the Foster Care program is to help states provide safe, appropriate, 24-hour, substitute care for children who are under the jurisdiction of the administering state agency and need temporary placement and care outside their homes. The objective of the Adoption Assistance program is to facilitate the placement of hard-to-place children in permanent adoptive homes and thus prevent long, inappropriate stays in foster care.

Our audit of the SSBG and the Title IV-E programs focused primarily on the following areas:

- General Internal Control
- Activities Allowed or Unallowed and Allowable Costs / Cost Principles
- Cash Management
- Eligibility
- Period of Availability of Federal Funds
- Procurement and Suspension and Debarment
- Matching
- Federal Reporting
- Subrecipient Monitoring
- Schedule of Expenditures of Federal Awards

The primary audit objectives, methodologies, and our conclusions for each area are stated below. For each area, auditors documented, tested, and assessed management's internal control to ensure compliance with applicable laws, regulations, grants, contracts, and state accounting and reporting requirements. To determine the existence and effectiveness of management's internal control, auditors administered planning and internal control questionnaires; reviewed policies, procedures, and grant requirements; prepared internal control memos, performed walk-throughs, and performed tests of controls; and assessed risk.

### **General Internal Control**

Our primary objectives for this area were to obtain an understanding of, document, and assess management's general internal control. We interviewed key program employees; reviewed organization charts, descriptions of duties, and responsibilities for each division and correspondence from the grantor; and considered the overall control environment of the SSBG and the Title IV-E programs.

We did not note any significant deficiencies in management's general internal control related to the SSBG and the Title IV-E programs.

### **Activities Allowed or Unallowed and Allowable Costs / Cost Principles**

The primary objectives in this area for the SSBG program and the Title IV-E programs were to determine

- if evidence exists that underlying records were reviewed for allowability,

- if supporting documentation was properly approved or authorized, and
- if procedures had been established to prevent duplicate payments.

Additional objectives for the Title IV-E programs were to determine

- if authorization was given by an individual who was knowledgeable of the requirements for determining activities allowed and allowable costs, and
- if a plan had been established and implemented to allocate indirect costs to the federal grant.

We interviewed key department personnel to document and evaluate the department's procedures for ensuring that costs are allowable and if procedures had been established to prevent duplicate payments. We selected a nonstatistical sample of SSBG and Title IV-E expenditures to determine if underlying records were checked to ensure that they reflect activities allowed and allowable costs and if supporting documentation was properly approved or authorized. We also reviewed the department's indirect cost plan.

Based on our interviews and reviews, we determined that procedures existed for ensuring that costs were allowable. We also determined that procedures had been established to prevent duplicate payments and the department's indirect cost plan had been properly implemented. Based on testwork performed on a sample of SSBG and Title IV-E expenditures, the transactions appeared to be adequately supported and were allowable. In addition, payments were reviewed for allowability and to ensure that prior approval was obtained.

## **Cash Management**

Our primary objectives in the area of cash management for the SSBG program and the Title IV-E programs were to determine

- if management developed a written policy that provides for monitoring of cash management activities,
- if management developed a written policy that provides for procedures for requesting cash reimbursements as close as is administratively possible to the actual cash outlay, and
- if management complied with the terms and conditions of the Cash Management Improvement Act Agreement between the state and the Secretary of the Treasury, United States Department of the Treasury (State-Treasury Agreement).

We reviewed written policies and procedures related to cash management requirements. We tested a nonstatistical sample of federal cash drawdown transactions for compliance with the State-Treasury cash management agreement.

Based on our reviews and testwork, we determined that the department had written policies covering cash management activities and that the department complied with the State-Treasury cash management agreement.

## **Eligibility**

Our primary objectives for the Title IV-E programs were to determine whether

- Title IV-E expenditures made were made on behalf of eligible children;
- appropriate forms documenting eligibility were maintained by the department; and
- case files contained adequate documentation of case manager contact with the child, family, or other individuals.

We interviewed key department personnel to document and evaluate internal control over eligibility determinations. We tested a nonstatistical sample of Title IV-E expenditures to determine that appropriate eligibility forms were on file for the children for which the payments were made and that the children were eligible at the time the payments were made. We also reviewed a nonstatistical sample of children's case files to determine that adequate narratives, monthly recordings, or case notes were maintained to document contact with the child/family or other individuals.

Based on the testwork performed, it appears that Title IV-E expenditures were made on behalf of eligible children and the appropriate forms documenting eligibility were maintained by the department. However, adequate documentation was not maintained in case files, as noted in finding 3.

## **Matching**

Our primary objective for the Title IV-E programs was to determine if the department met matching requirements set forth by program regulations.

The department segregates costs for each category of Title IV-E expenditures in the cost allocation plan by cost center. For each category of expenditures, we traced the amounts to the appropriate State of Tennessee Accounting and Reporting System (STARS) reports, verified that the correct federal participation rate was used, and recalculated the federal participation amount.

Based upon the testwork performed, it appeared that the department was complying with matching requirements.

## **Period of Availability of Federal Funds**

The primary objective in this area for the SSBG program and the Title IV-E programs was to determine if the department obligated and expended federal funds within the period of availability.

We tested a nonstatistical sample of SSBG and Title IV-E expenditures and compared the date the funds were expended by the state to the period of availability requirements of the program charged to determine if the department had obligated and expended funds within the period of availability requirements for each program.

Based on our testwork, the department had obligated and expended federal funds within the period of availability.

## **Procurement and Suspension and Debarment**

Our primary objectives for the SSBG program and the Title IV-E programs were to determine if

- there were clear assignments of authority for contracting goods and services,
- duties were properly segregated between employees responsible for contracting and accounts payable and cash disbursing, and
- procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

We interviewed key department personnel to document internal control related to contracting for goods and services and to evaluate segregation of duties relating to contracting, accounts payable, and cash disbursements. In addition, we obtained contracts for services and reviewed for the clause stating that the contractor had not been suspended or debarred and for the appropriate signatures.

Based on our interviews and reviews, it appeared that there were clear assignments of authority for contracting goods and services, duties were properly segregated between employees responsible for contracting and accounts payable and cash disbursing, and procedures were established to verify that vendors providing goods and services under the award had not been suspended or debarred.

## **Federal Reporting**

The primary objectives for the SSBG program and the Title IV-E programs were to determine if

- supervisors reviewed reports to assure the accuracy and completeness of data and information included in the reports;
- federal reports were complete and submitted timely;
- written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments; and
- there was an established information system that provided for reliable processing of financial and performance information for federal awards.

We interviewed key department personnel to gain an understanding of and to document procedures for preparing federal reports related to SSBG and Title IV-E. We obtained and reviewed federal reports for completeness and timeliness of submission.

Based on our interviews and reviews, we determined that supervisors reviewed reports to assure the accuracy and completeness of data and information included in the reports, and that federal reports were complete and submitted timely. In addition, written policies existed which established responsibility and provided procedures for periodic monitoring, verification, and reporting of program progress and accomplishments, and there was an established information system that provided for reliable processing of financial and performance information for federal awards.

### **Subrecipient Monitoring**

The primary objectives for the SSBG program and the Title IV-E programs were

- to determine if the department properly distinguished between subrecipients and vendors;
- to determine if the department monitored subrecipient activities to provide reasonable assurance that the subrecipients administer federal awards in compliance with federal requirements;
- to determine whether program subrecipients were monitored for compliance with program guidelines;
- to determine if corrective action plans were submitted as required and were approved by the department;
- to determine that the department complied with the Department of Finance and Administration Policy 22, "Monitoring of Subrecipients"; and
- to determine if the department's procedures for obtaining and reviewing subrecipients' audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs were functioning in accordance with prescribed requirements.

The department's procedures for monitoring subrecipient eligibility and activity, for monitoring program subrecipients at both program and fiscal levels, for distinguishing between subrecipients and vendors, and for determining risk assessments for subrecipients were reviewed and evaluated for accuracy. A nonstatistical sample of contracts was selected to determine if the subrecipient was monitored; corrective action plans, if applicable, were submitted to the department to correct deficiencies; corrective action plans were approved by the department; and risk assessment forms were completed in accordance with Finance and Administration's Policy 22. We reviewed the department's procedures for obtaining and reviewing subrecipients' audit reports to identify and resolve subrecipient weaknesses in internal control, instances of noncompliance with subrecipient agreements, and questioned costs.

Based on our review and testwork, the department has properly classified its subrecipients and vendors, and the department's program and fiscal monitoring of subrecipient activities was adequate. It appears that the department was in compliance with the Department of Finance and Administration's Policy 22 and that corrective action plans were submitted as required and approved by the department. The department's procedures for obtaining and reviewing subrecipients' audit reports were adequate.

### **Schedule of Expenditures of Federal Awards**

Our objective was to verify that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported. We verified the grant identification information on the Schedule of Expenditures of Federal Awards, and total disbursement amounts were traced to supporting documentation. Based on the testwork performed, we determined that the Schedule of Expenditures of Federal Awards was properly prepared and adequately supported.

### **Finding, Recommendation, and Management's Comment**

#### **3. Case files do not contain adequate documentation of case manager contact with the child, family, or other individuals**

##### **Finding**

As noted in the prior two audits covering the period July 1, 1998, to June 30, 2000, the Department of Children's Services (DCS) did not have adequate documentation in children's case files showing case manager contact with the child, family, or other individuals. DCS Policies 9.1, 9.2, and 9.9 indicate that a child's case file shall have a section titled "Case Recordings." Policy 9.1 states,

This section consists of, but is not limited to, chronological information concerning each contact with the child/family or other individuals. Appropriate documentation shall include the following: Narratives, monthly recordings, collaterals, case notes/progress notes, dictation, contacts or case documentation on child and family. Case recordings and all other documentation shall be added to the case file within 30 days of case work

activity. Each case shall have a case recording for each month that the case is open.

Management concurred with the prior finding and stated that it would “. . . continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews.”

However, problems were again noted involving time lapses between documented case manager contact with the child, family, or other individuals as evidenced by case note recordings. Thirty-two of 116 case files tested (28%) did not contain adequate documentation of case manager contact in accordance with DCS policy at the time the file was reviewed. In all 32 instances, there were substantial gaps in dates between case manager contacts as documented in the case recordings. Time lapses between documented contacts ranged from 35 to 560 days (averaging 127 days) in the files tested. Management subsequently located notes and other evidence of case manager contact, which was not in the case files or recorded in TNKIDS. This documentation reduced the number of problem files to 26 of 116 (22%), with gaps still ranging from 35 to 560 days (averaging 117 days). The subsequent evidence provided to the auditors should have been included in the case files during their initial review, and its omission from the files is not in compliance with DCS policy.

In addition, management stated that in December of 2000, the final region transitioning to TNKIDS completed training and that, in the future, all case recordings will be contained in a single electronic file for each child. The TNKIDS system electronically records the date of each entry to the file. Testwork comparing the date of entry with the date of activity disclosed several instances of untimely entries. Thirty-one of 116 case files tested (27%) contained instances of case notes being recorded in TNKIDS more than 30 days after case activity, contrary to DCS Policy 9.1.

### **Recommendation**

The Assistant Commissioner of Program Operations should ensure that case managers are making required contact with children in state custody and documenting the contacts made. Proper documentation, as described in DCS policies, should be prepared within a reasonable time after the visit and entered into TNKIDS within 30 days of the visit. All services provided to a child should be documented in the child’s case file. In addition, quarterly monitoring of case files by field supervisors and case file reviews by central office staff from the Division of Program Operations should specifically address compliance with DCS Policy 9.1.

### **Management’s Comment**

We concur in part. Case file reviews conducted by central office staff from the Division of Program Operations documented situations where case recordings were absent for periods of time and late (after 30 days) entry of case recordings. However the absence of case recordings is not an

indication that documentation of services provided, progress, and movement of the child is not included in the child's case file or TNKIDS. Many hard copy items, in addition to case recordings, serve to document services provided, progress, and movement of a child. A child's case receives periodic review by foster care review boards and the juvenile court. To facilitate those reviews, the case managers provide either written or verbal progress reports to the review board and juvenile court. The written progress reports contained in the case file provide documentation of services, progress and movement of the child. Court orders and reports completed by the foster care review board also serve to document case activity. The reports prepared by case managers for the reviews, court orders, and foster care review board reports may not be referenced in case recordings as the case file contains a hard copy of the report.

Each child in DCS custody is also required to have a permanency plan. The permanency plan references the issues that brought a child into custody and activities that must be completed in order to assist that child to return home, if appropriate, or have permanency in some other manner. Permanency plans are periodically updated and the original, as well as, revised permanency plans are contained in hard copy form in a child's file. Also, in TNKIDS, there is a Permanency Plan screen that indicates the review type, staffing date, goal type, target date, whether or not the court has ratified the permanency goal, and whether or not the parent/guardian has approved the permanency goal. The permanency plan is the primary document by which a case manager identifies the services that need to be provided for a child and the timeframe within which the services are to be provided.

In addition, correspondence produced by a case manager or received by a case manager is included in hard copy form in a child's case file. Correspondence may include progress reports from service providers or residential treatment facilities. Correspondence may also document placement of a child in a new treatment program or foster home. Correspondence can provide documentation of services, progress and movement of the child.

Each child's case file contains a section devoted to medical information. A report from a physician regarding an EPSDT screening, immunization records from a public health clinic, documentation of a visit to the dentist, etc. may be contained in this section of the file. Also, in TNKIDS, there is a Medical screen that indicates the evaluation type and date of each doctor's visit a child has while in custody. Each health evaluation represents an action taken by the case manager that stands alone to document casework activity on behalf of the child.

As for a child's movement within the system, TNKIDS contains a separate section, called the Placement screen, regarding a child's placements. The information in TNKIDS provides a history of the child's placements as well as the child's current placement. No additional documentation of a child's placement or movement within the system is necessary.

The Department will continue to stress its policy regarding timeliness of case documentation and the necessity of case documentation for each month that a child is in care. In addition to quarterly monitoring of case files by field supervisors, central office staff from the Division of Program Operations will continue to monitor case recording during their case file reviews. In addition to a review of case recordings, we will continue to monitor other items contained within the hard copy case file that are a

clear documentation of casework activity, progress of the child, services provided, and movement of the child within the system.

### **Auditor's Comment**

Management's response partially concurs with the finding and mentions several of the other sections within its case files and the documents maintained therein. However, as it relates to the documentation of case manager contact and compliance with its policy regarding case recordings, it acknowledges that its own case file reviews documented the condition noted in the finding. The quarterly monitoring of case files by field supervisors and the central office reviews conducted during the audit period may have disclosed the failure to comply with the department's case recording policy. However, these actions did not correct the condition noted in the finding. The results of this year's testwork indicate no improvement in the number of problem files or the gaps in the case recordings over last year. Management's comments to this year's audit finding offer the same corrective action as it did last year. It is unclear how management expects its continuation of actions that did not result in correction of the problem during 2001 will correct the problem in 2002.

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### **CONTRACTS**

Our primary objectives in the area of contracts were to follow up on the prior audit finding concerning employer-employee relationships and to determine whether

- the department continued to enter into contracts that establish improper employer-employee relationships, and
- the department allowed contract services to be rendered before proper approvals of the contracts were obtained.

We interviewed key department personnel and reviewed terms of contracts, authorizations and dates, contract payment support, and memorandums. We also reviewed organization charts to determine the working relationships between the Department of Children's Services' employees and Community Services Agencies' employees.

Based on our testwork, the department had not allowed significant contract services to be rendered before proper approvals of the contracts were obtained. However, the department continued to enter into contracts that established improper employer-employee relationships, as disclosed in finding 4.

## Finding, Recommendation, and Management's Comment

### 4. The department has established improper and ineffective employer-employee relationships

#### Finding

As noted in the prior three audits covering the period July 1, 1997, through June 30, 2000, the Department of Children's Services (DCS) has entered into contracts with Community Services Agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Services Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. The CSA organizational charts at the department show that there are 149 CSA employees who report to DCS employees. Some of these CSA employees are secretaries for the department's regional administrative staff. These contracts appear to create "employer-employee" relationships between the department and these individuals. Management did not concur with the prior audit finding, stating that direct supervision of these employees is desirable and necessary due to the nature of functions performed by the CSAs and the department's responsibilities for children in its custody.

The practice of allowing employees of Community Services Agencies to report directly to Department of Children's Services officials/employees, in carrying out what can be construed as state programs, raises policy and legal issues, as well as questions of effectiveness. We still do not believe that these situations should be accepted as a matter of policy. *Tennessee Code Annotated*, Section 37-5-314, considers CSA employees "state employees" for the purposes of negligent acts or omissions within the scope of their authority. However, *Tennessee Code Annotated*, Section 37-5-315(2), states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors." This legal concern arises from the legislative intent that the department not create an employer-employee relationship with Community Services Agencies and a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include DCS's ability to direct and control the work of CSA employees it supervises.

As noted in the prior audit, the Child Welfare League of America, in direct collaboration with the Department of Children's Services, agreed to assess the current status of the foster care and adoption programs, to develop strategies for change, and to implement specific actions to strengthen the service delivery system. Their report, dated April 6, 1999, contained the following findings:

- The present relationship between the DCS regional offices and the Community Services Agencies simply does not work in some regions. In others, it works only due to the personalities and commitment of the individuals involved. There is no guarantee that these relationships would continue if the current players leave either agency.

- Significant energy is consumed at DCS and the CSAs in trying to make the current arrangements work and in dealing with staff concerns about what is not working well. This energy needs to be expended in working with children and families.
- The current arrangements in which some of the CSA case managers report to DCS team leaders for a portion of their supervision creates an appearance of an employer-employee relationship. For all practical purposes, these CSA case managers function as DCS employees.

These relationships also create inherent problems for the DCS supervisory personnel in that they have less direct control over the performance of CSA case managers.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer, and costs of travel, supplies, and equipment used by the administrative staff.

### **Recommendation**

The Department of Children's Services should not contract with Community Services Agencies to establish what are, in effect, employer-employee relationships. The department should consider the Child Welfare League of America's findings and recommendations for strengthening the service delivery system. The Department of Children's Services should consult with the Office of the Attorney General concerning the legal ramifications of such employer-employee relationships between the department and the CSAs.

### **Management's Comment**

We do not concur. This finding states that the contracts between DCS and the CSAs appear to create "employer-employee" relationships, which should not be accepted as a matter of policy. In particular, the auditors note that *Tenn. Code Ann.* 37-5-315(2) states that the Community Services Agency Act "shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors."

DCS has obtained two opinions from the Office of the Attorney General, and has also identified past opinions bearing upon the issues at hand. It is clear from these opinions that the CSAs are not properly characterized as ordinary private-non-profit organizations, that the State is indeed liable for actions of the CSAs while acting within the scope of their authority, and that DCS is required by law to maintain close oversight and control of the CSAs because the CSAs perform delegated functions that are inherently governmental in nature.

As DCS has previously reported, DCS requested and received in June 1997 an opinion regarding the liability of CSA employees while acting within the scope of their authority. Page 3 of the opinion provides that:

We have determined that CSAs are state entities for the purposes of liability and provision of legal representation because of: (1) the clear legislative intent to regard CSAs as state agencies or instrumentalities; and (2) because they are operated by the state government, receive appropriations of funds from the state, and serve as a “conduit through which the state acts” to carry out public functions. Tenn. Op. Atty. General No. 97-092 (citing Hastings v. South Central Human Resource Agency, 829 S.W.2d 679, 682 (Tenn. App. 1991)).

It is important to note that the Community Services Agency Act provides that the CSAs “shall be a political subdivision and instrumentality of the state” and that “[a]s such, it shall be deemed to be acting in all respects for the benefit of the people of the state in the performance of essential public functions, and shall be deemed to be serving a public purpose through improving and otherwise promoting the well-being of children and other citizens of the state.” *Tenn. Code Ann.* §37-5-304.

The Act provides explicitly that “[e]mployees of the community services agencies shall be considered ‘state employees’ for purposes of §9-8-307.” Opinion No. 97-092 goes further to observe that the CSA boards are appointed by the Governor and are “state officials and thus state employees” for the purposes of governmental immunity under *Tenn. Code Ann.* 9-8-307(h).

DCS in 2000 requested and received another opinion from the Attorney General addressing more issues bearing on the issue at hand. Tenn. Op. Atty. Gen. No. 00-113 is attached hereto. In that opinion, the Attorney General states that “CSAs are clearly subject to the authority and control of the [DCS] Commissioner,” noting that the General Assembly statutorily empowered the Commissioner to establish the CSAs, to appoint each CSA executive director, approve all CSA policies, procedures, rules and regulations, and any other acts necessary or convenient to exercise the powers granted in the Act. Based on that control by the Commissioner, the Opinion states that DCS attorneys may provide any legal advice needed by the CSAs.

The recommendation that DCS consult with the Attorney General has been followed for at least the last three years. The Attorney General has identified no liability problem based on the employer/employee relationship noted by the audit and has made no recommendation of any action to be taken by DCS to lessen or minimize the relationship between the CSAs and DCS.

The department does not concur with the portion of the finding that there is an ineffective relationship between the CSAs and DCS. While it is true that Child Welfare League of America did identify some areas of the state where DCS and CSA relationships are strained, there are an equal number of examples where those relationships are sound and functional, characterized by shared responsibility and shared decision-making. While we agree that some working relationships need to be improved we cannot concur with a wholesale indictment of all staff in all regions.

As noted in management's response last year, DCS has been working to further define the functional roles of the case managers in both agencies. In July 2001, legislation became effective that transferred 249 CSA case manager positions to the Department of Children's Services in order to assure that no CSA employee was providing services in the areas relating to custodial children, specifically, adoption, foster care, juvenile justice or providing services for mandated services, such as child protective services and family crisis intervention. The effect of this legislation addresses the concerns about functionality of roles outlined in the Child Welfare League of America recommendations and in the audit findings.

The finding states "the state apparently has incurred additional cost by contracting with non-state entities to operate programs." However, the auditors did not provide the department with any analysis to substantiate this claim. This finding also states, "the CSAs have received funding from each state department to defray the costs of administration." The auditors have not provided the department with any documentation to substantiate the claims that the CSAs are claiming any administrative costs that could be avoided if DCS administered all of the CSA's state contracts or took over all those duties as a direct service.

### **Rebuttal**

The Attorney General has stated that CSA employees have certain benefits of state employees. However, it is clear that such benefits are limited, and CSA employees are not considered state employees. Although the legislation allows CSAs to contract with DCS to provide services, the legislation neither requires nor suggests that DCS contract with CSAs to carry out any DCS responsibilities that would necessitate on-site DCS supervision of CSA employees.

In fact, the legislation does not envision that an employer-employee relationship would exist between the CSAs and DCS as it clearly states that nothing within the act should be construed as creating an employer-employee relationship between DCS, the CSAs, or their contractors. Furthermore, management suggests that such CSA agreements are necessary for DCS to fulfill its responsibility to the state. However, such agreements are not present in all CSAs throughout the state.

Finally, if on-site supervision is necessary for case management services because these delegated functions are inherently governmental in nature, it would seem equally necessary for such on-site supervision by DCS personnel at its vendors where DCS places the children.

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### **STUDENT AND SOCIAL SECURITY TRUST FUNDS**

Our primary objectives for student trust fund accounts were to document internal control and determine whether

- disbursements were properly supported and revenues were credited to the trust fund accounts,

- management had instituted formal written policies and procedures governing student trust fund accounting,
- student trust fund transactions were properly recorded in the individual child's account, and
- student trust fund accounts are reconciled each month and the reconciliations are adequately supported.

Our primary objectives for Social Security trust fund accounts were to follow up on the prior audit findings concerning the administration of trust fund accounts and not performing monthly accountings, and to determine whether

- the department upheld its fiduciary duty to properly administer and account for trust funds held for children in state custody by ensuring expenditures were properly supported and revenues were credited to the trust fund accounts,
- management had instituted formal written policies and procedures governing trust fund accounting,
- reconciliations were performed between the total of the individual trust fund accounts and the total balance on the State of Tennessee Accounting and Reporting System (STARS),
- trust fund transactions were properly recorded in the individual child's account,
- an accounting was performed for each child on a monthly basis, and
- refunds due to the Social Security Administration (SSA) were returned in a timely manner.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over student and Social Security trust fund transactions for children in state custody to determine whether improvements had occurred during the audit period. We reviewed supporting documentation and tested a nonstatistical sample of student trust fund transactions for propriety and compliance with departmental policies. We also reviewed the student trust fund monthly bank account reconciliations on a sample basis to determine the propriety of reconciling items. We tested a nonstatistical sample of children receiving Social Security benefits to determine if an accounting was performed for each child on a monthly basis. We interviewed departmental personnel to determine the types of reconciliations being performed for Social Security trust funds. We also tested nonstatistical samples of Social Security revenues and amounts used to reimburse the state for the care of children receiving benefits to determine if the transactions were properly recorded in the individual child's account and if funds were returned to the SSA in a timely manner.

Based on our interviews and testwork, we determined that, in regard to student trust funds, disbursements were properly supported and revenues were credited to trust fund accounts, management had instituted formal written policies, transactions were properly recorded, and accounts are reconciled each month and are adequately supported. In regard to Social Security trust funds, we determined that the department had instituted formal written policies and procedures, an accounting was performed for each child on a monthly basis, and trust fund transactions were properly recorded in the

individual child's account in all material respects. However, in regard to the department's fiduciary duty to administer and account for Social Security trust funds, we determined that the department had not prepared reconciliations between the total of the individual Social Security trust fund accounts and the total balance on STARS and had not made refunds to the Social Security Administration in a timely manner. See finding 5.

### **Finding, Recommendation, and Management's Comment**

#### **5. The department did not perform reconciliations related to trust fund accounts of children receiving federal benefits and did not return funds to the Social Security Administration timely**

##### **Finding**

As noted in the prior three audits, covering the period July 1, 1997, through June 30, 2000, the Department of Children's Services (DCS) did not perform reconciliations related to trust fund accounts of children receiving federal benefits and did not return funds to the Social Security Administration (SSA) timely. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration for Social Security payments and Supplemental Security Income (SSI) benefits, as well as payments received from parents and from the U.S. Veterans' Administration, Miners, and Railroad benefits. The money in each individual's trust fund account may be used to reimburse the state for current and future expenditures made by the state on behalf of the child. In addition, when a child leaves state custody, it is the state's responsibility to return the child's balance to the Social Security Administration within 60 days.

Management concurred with the prior audit finding and referred to ongoing work with the Public Consulting Group to develop a system in cooperation with DCS's Information Resources division to bring DCS into compliance with the Michael B. consent decree and all laws and regulations. This work was ongoing as of June 30, 2001. Although work performed to date has resolved several of the issues noted in prior audits, issues remain regarding reconciliations and timely return of funds to SSA.

Reconciliations were not performed between the total of the individual trust fund accounts and the fund's total balance on the State of Tennessee Accounting and Reporting System (STARS), which was \$11,736,005 at June 30, 2001. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts entered into the individual trust fund accounts. In addition, the total amounts deducted from children's trust fund accounts for expenditures made by the state on behalf of the child were not reconciled with amounts deducted from the fund's total balance. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts and all amounts transferred to the State of Tennessee, in total, were properly deducted from the children's trust fund accounts.

Testwork performed revealed that 3 of 60 amounts received on behalf of a child (5%) were not credited to the individual child's account. In addition, 1 of 60 amounts transferred to the state (1.6%) was not made for the correct amount. In this instance, the state was entitled to deduct, and made a deduction of, \$486.23 from a child's account. However, the corresponding transfer to the state's general fund for this transaction deducted \$35,965.00 from the fund's total balance. Had the aforementioned reconciliations been performed, these errors could have been detected and corrected in a timely manner.

The department did not refund money due to the SSA in a timely manner when children left state custody. We examined 50 trust fund accounts of children who had left state custody during or prior to the audit period. It was noted that the department did not return the child's trust fund balance to the SSA within 60 days for 6 of the 50 children who left state custody (12%). Funds were not returned for two children who left state custody prior to the audit period until nearly 20 months and 37 months after their release, respectively. Of the four children released from custody during the audit period, one child's funds were returned approximately 4 months after release, and there was no evidence to indicate that funds were ever returned for the other three children.

The Michael B. court settlement, Section III, part 8(b), states in part that the Social Security Administration is "to require state defendants to provide a final accounting and return any excess benefits received on a child's behalf to SSA within 60 days of the child's release from state custody without the necessity of a prior request for such action by SSA."

### **Recommendation**

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should ensure that reconciliations are performed to balance monthly account activity to the amounts keyed into the individual trust fund accounts. In addition, a monthly reconciliation should be performed to balance the total individual trust accounts to STARS. When children leave state custody, the department should refund any benefits due to the SSA within 60 days.

### **Management's Comment**

We concur. The reconciliations noted in the finding are very labor intensive. With manual accountings for 2500 children being performed by the trust fund staff monthly the time required to perform the reconciliations noted in the finding is just not available. An automated system is being developed which will result in this process being manageable. The development of this system began in April 2000. The automated system will allow management of the division to monitor activity in each account, see that all reconciliations are performed as required, and have reports available which will note any appearance of outstanding issues. This will include any State fund transfers or refunds to Social Security approaching an untimely status. Developing a system to appropriately provide all the required processes in an accurate manner has taken more time than DCS had initially planned. We are,

however, focused on implementing a system that will provide accurate and timely information on each child's account.

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## INFORMATION SYSTEMS

Our primary objectives in the area of information systems were to follow up on the prior audit findings concerning case management systems not ensuring data integrity and user accountability, and to determine whether

- the department has developed and implemented adequate internal control related to the state's accounting systems used by the department (State of Tennessee Accounting and Reporting System, Tennessee Online Purchasing System, and the Property of the State of Tennessee System);
- computer programming controls related to the Tennessee Kids Information Delivery System (TNKIDS) have been designed to require users to check for duplicate entries before entering a new client, allow only appropriate users to add, change, or delete clients or information on clients, identify the user who makes a specific addition, change, or deletion of a record, and require users to change their password;
- the department has developed and tested a disaster contingency plan; and
- the department has canceled terminated employees' access to the state's computer systems.

We interviewed key department personnel to obtain an understanding of the internal control related to the TNKIDS system and the state's accounting systems used by the department (State of Tennessee Accounting and Reporting System, Tennessee Online Purchasing System, and the Property of the State of Tennessee System). We reviewed computer programming controls related to TNKIDS. We reviewed the department's disaster contingency plan and documentation related to the testing of the plan. We compared user access records at year end to terminated employee data to determine if the department has canceled terminated employees' access to the state's computer systems in a timely manner.

Based on our interviews, review of supporting documentation, and testwork, the department had developed and implemented adequate internal control related to the state's computer systems used by the department. We determined that the TNKIDS computer system has been designed to require users to check for duplicate entries before adding new clients; to allow only appropriate users to add, change, or delete clients or information on clients; or to identify the user who makes a specific addition, change, or deletion of a record. In addition, the department had developed a disaster recovery plan, and the plan had been tested. However, as noted in finding 6, the department has not canceled terminated employees' access to the state's computer systems in a timely manner.

## **Finding, Recommendation, and Management's Comment**

### **6. Department employees' access to the state's computer systems was not adequately controlled**

#### **Finding**

The department did not promptly cancel terminated employees' Resource Access Control Facility (RACF) IDs and access to the State of Tennessee Accounting and Reporting System (STARS). RACF is the security software that protects the state's mainframe programs and data files from unauthorized access. Of the 2,248 people listed as having Children's Services RACF IDs as of July 1, 2001, 79 (3.5%) were no longer employees of the department. These persons had been terminated from employment from 15 days to 16 months prior to the date of the listing. Six of these 79 Children's Services RACF IDs were used subsequent to the employees' termination from the department. In addition, of the 163 people listed as having access to Children's Services accounts in STARS as of May 15, 2001, two (1.2%) were no longer employees of the department. These persons had been terminated from employment from one to two months prior to the date of the listing.

In addition to the problems with persons having RACF IDs and STARS access after termination from the department, the assignment of RACF IDs was not always properly authorized. Thirteen of 2,248 people listed as having Children's Services RACF IDs (.6%) were assigned unauthorized multiple RACF IDs. These were current employees of the department. Management did not provide an explanation for the unauthorized multiple RACF IDs. However, several of them appeared to have been attempts to correct errors made in assignments, and the erroneous assignments were not canceled.

Not promptly canceling access to these important computer systems in addition to not always properly authorizing its RACF IDs increases the possibility of unauthorized changes and decreases assurance of the systems' integrity.

#### **Recommendation**

The Commissioner and the Director of Information Resources should ensure that adequate controls are in place to promptly cancel terminated employees' access to all computer systems. At a minimum, these controls should include a weekly review of all employees who have terminated. In addition, the Director of Information Resources should cancel all unauthorized RACF IDs and ensure that RACF IDs are properly authorized. If conditions necessitate reissuing a RACF ID, it should be adequately documented, and the erroneous RACF ID should be canceled immediately.

## **Management's Comment**

We concur. The Personnel Division has issued a new edition of the DCS Exit Interview Form with instructions for all supervisory staff. The new form instructs the supervisory staff to e-mail the DCS Help Desk by the close of business on the employee's last day worked requesting "Please terminate all Computer Related Access for (Full Name, EI#) effective today." The supervisory staff is responsible for notifying the DCS Help Desk for all terminations including Contractors, State, CSA and Temporary employees. The DCS Help Desk will delete all access (Mainframe and Novell) as well as the actual RACF and User ID's.

The Security Administration Team will complete one weekly reconciliation and two formal monthly reconciliations. A comparison of the Employee Data Base against Active RACF ID and Active User ID reports will be done on a weekly basis. This comparison will produce a report that lists any Active RACF or User ID numbers that are not on the Employee Data Base. Security Administration will investigate this report and send requests to the Help Desk to terminate access for terminated employees. In addition, the weekly Active RACF ID Report will be used to reconcile any duplicate RACF IDs. Any duplicate ID found will be deleted immediately. At the end of each month the weekly reports will be combined and a formal monthly reconciliation will be completed. As a part of this reconciliation, all mainframe access, including STARS, will be checked for deletion as well as the RACF ID. From this reconciliation, a monthly report will be generated with all terminated employees for which the Help Desk did not receive proper notification of termination. Thirdly, a monthly reconciliation of the 30-Day No Log In Report will be conducted. Any exceptions will be investigated and appropriate action will be taken. All monthly reconciliations will be signed, dated and sent to the Information Systems Director.

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## **CASH RECEIPTS**

Our primary objectives were to determine whether

- departmental internal control ensured that transactions were properly supported, that receipts agreed with amounts deposited, that deposit slips were completed properly, and that funds were properly controlled and deposited intact;
- cash receipting functions were adequately segregated;
- reconciliations between the mail log, cash receipt records, and the deposit were performed; and
- the Department of Finance and Administration's (F&A) policy for timely deposit of funds had been followed.

Key department personnel were interviewed to gain an understanding of the department's procedures for and internal control over cash receipts. We also reviewed supporting documentation and tested a nonstatistical sample of cash receipts for proper support and for the appropriate

requirements relating to internal control over receiving, receipting, controlling, safeguarding, and depositing of funds. Also, the transactions were tested for compliance with F&A's policy for timely deposit of funds.

Based on our interviews, review of supporting documentation, and testwork, it appears that transactions were properly supported, receipts agreed with amounts deposited, deposit slips were completed properly, and funds were deposited intact. We also determined that cash receipting functions were adequately segregated; reconciliations between the mail log, cash receipt records, and the deposit were performed; and the department is in compliance with F&A's policy for timely deposit of funds.

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## **PROPERTY AND EQUIPMENT**

Our primary objectives for property and equipment were to determine if

- the department performed and documented a year-end inventory and whether inventory procedures were adequate;
- the purchase of equipment during the fiscal year was in accordance with applicable guidelines;
- equipment has been properly accounted for in POST; and
- subsidiary records maintained for laptop computers and printers were complete and accurate.

Key department personnel were interviewed to gain an understanding of the department's procedures for performing year-end inventories. We reviewed the instructions provided by management to perform the inventory, and we reviewed inventory results. We used analytical procedures to review the department's POST listing to determine if equipment items were properly classified. We interviewed key personnel to document internal control and procedures for equipment purchases and reviewed them for adequacy. We also reviewed the department's subsidiary records for laptop computers and portable printers and tested a nonstatistical sample of these items to determine the accuracy of the listing.

Based on our interviews, reviews, and testwork, we determined that the department performed and documented a year-end inventory and that the purchase of equipment during the fiscal year was in accordance with applicable guidelines. In addition, we determined that equipment had been properly accounted for in POST in all material respects, and subsidiary records maintained for laptop computers and printers were complete and accurate in all material respects.

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## DISBURSEMENTS

Our primary objectives were to follow up on prior audit findings concerning untimely processing of status changes for foster care children, and prompt processing of journal vouchers, and to determine whether

- the department has written procedures in place to prevent duplicate payments and overpayments, and to detect and collect duplicate payments and overpayments should they occur;
- duplicate payments and overpayments to vendors have been issued;
- medical payments were approved and funded properly;
- the process for changing the status of foster children was adequate and whether changes were made in a timely manner in order to prevent overpayments to foster and adoption assistance parents;
- payments made to foster and adoption assistance parents were reviewed and approved to determine if services were provided to children before the payments were made; and
- the Department of Finance and Administration's (F&A) Policy 18, Journal Vouchers-J Type, had been followed.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over disbursements. We reviewed supporting documentation and tested nonstatistical samples to determine if medical payments were approved and funded properly. We tested a nonstatistical sample of journal vouchers for compliance with the provisions of F&A's Policy 18. We reviewed internal control and procedures related to status changes in the Children's Plan Financial Information System (ChipFins) and reviewed ChipFins adjustment forms to determine if significant overpayments had been made to foster and adoption assistance parents. We also examined all warrant cancellations made by the department and all refunds made to the department in order to identify any overpayments or duplicate payments made to vendors.

Based on our interviews, reviews, and testwork, it appears that the department has procedures to prevent duplicate payments and overpayments, and to detect and collect duplicate payments and overpayments should they occur. Significant duplicate payments and overpayments have not been made to vendors, and medical payments were approved and funded properly. We determined that status changes of foster children were made in a timely manner, in all material respects, in order to prevent overpayments to foster and adoption assistance parents, and payments made to foster and adoption assistance parents were reviewed and approved to determine that services were provided to children before payments were made. However, we determined that the Department of Finance and Administration's (F&A) Policy 18, Journal Vouchers-J Type, had not been followed as noted in finding 7.

## **Finding, Recommendation, and Management's Comment**

### **7. The department did not process journal vouchers promptly, resulting in lost interest on amounts that were billed to the federal government**

#### **Finding**

As noted in the prior five audits covering the period July 1, 1995, through June 30, 2000, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly.

Six of 15 revenue voucher transactions (40%) were not processed promptly in accordance with Policy 18. Three of these voucher transactions are administrative costs the department bills to TennCare, and three vouchers are administrative costs billed to the Department of Human Services. These transactions are billed in accordance with the federally approved cost allocation plan. The data used to derive the administrative cost allocation are compiled from random moment sampling on a quarterly basis. Therefore, the department accumulates a quarter's costs before the allocation data are compiled and billing occurs. The TennCare journal vouchers exceeded \$350,000 and were billed from two to three months after quarter-end instead of within five working days of the expenditure activity. According to Policy 18, revenue (billing) journal vouchers totaling more than \$350,000 shall be journal vouchered within five working days after the expense/expenditure is incurred or the service is rendered. The other journal vouchers, based on their dollar amount, should have been billed at least monthly.

On February 1, 2001, the department requested a waiver for Finance and Administration Policy 18, "Journal Vouchers-J Type." In conjunction with this request, the department submitted a request for approval of changes to the methodology for the recovery of costs through cost allocation to TennCare and the federal government. The department requested permission from the federal government to draw funds for these administrative costs daily based on an estimate with a settlement to the actual amount derived according to the approved cost allocation plan.

In addition, for 4 of 16 expenditure voucher transactions (25%), the department did not initiate the journal vouchers in the month following quarter end in which the activity occurred. Three of these journal vouchers were to the Department of Health for the Children's Health Alcohol and Drug Program. The department initiates the journal vouchers and submits the vouchers to the Department of Health. Policy 18 states that the paying department that initiates the journal voucher (expenditure vouchers), regardless of the amount, shall be billed in the month following each quarter end in which the activity occurred.

If journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Furthermore, the state is losing interest income on the use of state money used to fund federal expenditures. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

## **Recommendation**

The department should vigorously pursue its request to the federal government for amending the drawdown procedures in its cost allocation plan relative to administrative costs. As for the other vouchers initiated by the department, the department should, in conjunction with other departments and agencies, develop procedures to ensure that the transfers of funds are made timely and comply with Department of Finance and Administration Policy 18.

## **Management's Comment**

We concur. The department submitted a request to TennCare and the federal government on February 2, 2001 for an amendment to the department's cost allocation process. Approval of an exception from the Department of Finance and Administration for a waiver to Policy 18 is dependent on the approval from the federal government of this amendment. The federal government (Department of Health and Human Services, [DHHS]) has requested additional information from DCS concerning these proposed changes. The DCS fiscal staff is currently preparing responses to these inquiries. DHHS has to date indicated agreement with the proposed changes to the cost allocation plan impacted by the journal voucher issue noted in the finding. DHHS has recommended one change to our request. Management is evaluating the change recommended. In addition, DHHS has requested additional information. DCS will ask DHHS to treat the request impacting Finance and Administration Policy 18 as a separate amendment from the other issues DCS is addressing. This should facilitate a more timely approval of the waiver to Policy 18.

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## **ACCOUNTS RECEIVABLE**

Our objectives for accounts receivable were to follow up on a prior audit finding concerning significant amounts of uncollected overpayments to foster care and adoption assistance parents, and to

- determine whether the department continued to have significant amounts of uncollected overpayments,
- obtain an understanding of and document the procedures used to establish accounts receivable amounts throughout the fiscal year, and
- obtain an understanding of and document the procedures used to establish and record accounts receivable amounts at year-end.

We interviewed key department personnel to gain an understanding of the department's procedures for and internal control over establishing accounts receivable. We also reviewed the year-end accounts receivable listing to determine the amount of uncollected overpayments made to foster care and adoption assistance parents.

Based on our interviews, procedures used to establish accounts receivable were documented and appeared to be adequate and in place. However, the department still has significant uncollected amounts of overpayments made to foster and adoption assistance parents, as noted in finding 8.

### **Finding, Recommendation, and Management's Comment**

**8. Children's Services has not collected overpayments; uncollected overpayments totaling at least \$1,178,416 are due from foster care and adoption assistance parents**

#### **Finding**

As noted in the seven previous audits, from July 1, 1993, to June 30, 2000, Children's Services still has not collected overpayments from foster care and adoption assistance parents. Management concurred with the prior audit finding and stated,

The department has . . . had discussions with the Department of Finance and Administration concerning the State's ability to contract with a collection agency to address the issue of overpayments to parents that are no longer receiving any foster care or adoption assistance payments. At this time, the department believes that it will be able to contract with a collection agency through the state request for proposal policy, but is unsure at this time whether this would be cost-effective. In addition, the department is consulting with its legal division to determine whether legal action would be cost beneficial. The department's solution to future problems of this nature is to prevent overpayments and be able to identify one, if it should occur, in a timely manner so recovery can be immediate.

As of June 30, 2001, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,178,416, a decrease of \$77,244 since June 2000. This decrease was due, in part, to the department resolving a prior audit finding by implementing controls to significantly reduce the amount of overpayments made to foster care and adoption assistance parents during the audit period. In addition, subsequent payments to current foster parents are reduced by 50% until the amount due is indicated to be zero.

It is the department's policy to notify foster care and adoption assistance parents by letter when it has been determined that an overpayment has been made and a receivable is established. Each month, a remittance advice is sent to the overpaid parent noting the balance due to the state. However, the department is still not actively pursuing recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. Although management's previous response mentioned contracting with a collection agency, it has not done so during the year. Once an overpayment is detected, the department adjusts subsequent requests for federal funds in order to eliminate federal participation in the amount overpaid.

## Recommendation

The Assistant Commissioner of Fiscal and Administrative Services and the Director of Fiscal Services should continue their efforts to reduce the number of overpayments. In addition, they should actively pursue recovery of funds from foster care or adoption assistance parents who received overpayments but are no longer keeping children. These steps should include increasingly aggressive collection letters, telephone calls, collection agencies, and litigation.

## Management's Comment

We concur. The department has been communicating with the Department of Finance and Administration (F&A) during fiscal year 2001 to monitor progress in the implementation of a statewide collections contract. F&A consistently pursued the completion of this contracting process throughout fiscal year 2001. DCS monitored this progress and determined that a separate departmental contract would not be necessary. A vendor has been selected for statewide collections and F&A is developing the contract at the time of this response. This contract negates the need for a separate departmental contract. DCS will be utilizing the statewide contract as soon as it is fully executed to resolve these outstanding overpayment accounts.

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## RULES AND REGULATIONS FOR COMMUNITY SERVICES AGENCIES

Our primary objective was to follow up on a prior audit finding to determine whether the department had complied with *Tennessee Code Annotated* (TCA) as it relates to the promulgation of rules and regulations for the Community Services Agencies.

We reviewed TCA Section 37-5-307 to become familiar with the requirements of the statute. We also interviewed key personnel at the department.

Based on our reviews and interviews, we determined, as noted in finding 9, that the department was not in compliance with TCA 37-5-307, which requires that the Commissioner promulgate rules and regulations for Community Services Agencies.

## Finding, Recommendation, and Management's Comment

### 9. The department has not promulgated rules and regulations for Community Services Agencies

#### Finding

As noted in the prior audit, the department has not promulgated rules and regulations for Community Services Agencies since the inception of the Community Services Agency Act of 1996 as required by *Tennessee Code Annotated* (TCA). The Community Services Agency Act of 1996 (TCA 37-5-307) states, "The commissioner has the duty and responsibility to promulgate rules and regulations

to carry out the commissioner's responsibilities. . . ." The Commissioner's responsibilities under the Community Services Agency Act include, but are not limited to, reviewing and approving plans of operation, approving contracts, and appointing executive directors for each agency. The department concurred with the prior audit finding and stated,

The department has drafted the rules and regulations for the CSA's and submitted a Notice of Rulemaking Hearing containing these draft rules and regulations to the Office of the Secretary of State on February 15, 2001. The hearing is scheduled for May 29, 2001. The department will follow all state policies to ensure these rules are promulgated properly and as quickly as possible.

As stated in management's response, rules and regulations for the CSAs were drafted and submitted to the Office of the Secretary of State. However, adoption of the drafted rules was delayed. According to management, delays are attributed to the review processes of the Secretary of State and the Attorney General's Office, their requested changes, and the resubmission to both parties for their respective approvals.

Public Acts 1989, chapter 567, known as the Community Health Agency Act of 1989 (TCA 68-2-1101), established 12 community health agencies across the state of Tennessee to provide a defined system of health services to make health care available to the indigent citizens of Tennessee. This legislation provided that the Department of Health be the supervisory agency over the community health agencies. The Department of Health established *Community Health Agency Rules and Regulations*, effective April 30, 1990, to aid the community health agencies in carrying out their duties and responsibilities under the Department of Health.

Through Public Acts 1996, chapter 1079, section 149, the legislature transferred TCA 68-2-1011 to TCA 37-5-301 and created the Community Services Agency Act. This act established a system to provide services for children and other citizens using the same 12 centralized agencies, now called Community Services Agencies, throughout the state. The Department of Children's Services was designated as the agency to oversee the Community Services Agencies.

Because the department has not fulfilled its responsibilities, the agencies have continued to use the Department of Health's *Community Health Agencies Rules and Regulations* as guidance for

- developing and revising plans of operations;
- purchasing goods and services;
- contracting for personal, professional, and consultant services; and
- terminating contracts with service providers.

The guidance currently being used does not indicate a change in name from community health agencies to Community Services Agencies, nor does it indicate the change in purpose of the Community Services Agencies that was laid out in TCA 37-5-302. Should questions arise concerning the operations of the Community Services Agencies, not having enforceable rules and regulations in place

could result in policy and legal issues for both the Community Services Agencies and the Department of Children's Services.

### **Recommendation**

The department should move forward with efforts to expedite the promulgation of rules and regulations that reflect the purpose of the Community Services Agencies and address the responsibilities of the Commissioner of the Department of Children's Services.

### **Management's Comment**

We concur. The public hearing on the proposed rules was held on May 29, 2001. As stated in the finding, there were some requested language changes to CSA Rules and Regulations. The CSA Rules and Regulations, including requested revisions, were submitted to the Office of the Attorney General on September 2, 2001. It is anticipated that these rules and regulations will be approved and filed with the Office of the Secretary of State in the near future. The delay in the Attorney General's office review and approval was not caused by DCS. DCS is dependent on the approval process required by statute. The policy of the Attorney General's office is that proposed rules and regulations be approved or not approved within thirty days. DCS has been assured that that timetable will be followed in any subsequent review of rules. DCS will continue to follow prescribed statute in promulgating the rules and regulations for community services agencies.

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### **DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20, "RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES"**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grants Module to record the receipt and expenditure of all federal funds.

Our objectives were to follow up on the prior audit finding concerning grants not being charged when initial transactions are recorded and to determine whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department charged the federal grant at the time the initial expenditure transactions were made;

- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department's procedures and internal control concerning Policy 20 and the department's indirect cost recovery plan. We reviewed supporting documentation and tested nonstatistical samples of grant awards, revenue and expenditure transactions, drawdowns, and reports submitted to the federal government to determine if indirect costs were included in the drawdowns and drawdowns were made timely. Grant award notification dates were reviewed and compared to the awards listed on STARS to determine if grant awards were entered timely. A nonstatistical sample of revenue and expenditure transactions was tested to determine if the transactions were coded properly. We tested a nonstatistical sample of Social Services Block Grant and Title IV-E expenditures to determine if the department charged the federal grant at the time the initial expenditure transactions were made. We also reviewed payroll cost reallocations and the Schedule of Expenditures of Federal Awards. Each grant's total expenditure amount on the schedule was traced to STARS.

Based on our interviews, reviews, and testwork, the department had fully utilized the STARS Grants Module to record the receipt and expenditure of all federal funds, appropriate payroll costs were reallocated appropriately and timely, the department made drawdowns weekly, and the proper indirect costs were included in the drawdowns. The department also used the appropriate STARS reports as bases for preparing the Schedule of Expenditures of Federal Awards and reports submitted to the federal government. However, we did determine, as noted in finding 10, that the department does not charge the federal grants at the time the initial expenditure transactions are made.

## **Finding, Recommendation, and Management's Comment**

### **10. The department does not charge the appropriate federal grant at the time the initial expenditure transactions are made**

#### **Finding**

As noted in six previous audits covering the period July 1, 1994, through June 30, 2000, the Department of Children's Services pays expenditures with state dollars initially and later reallocates each expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. The department follows this procedure because of the different eligibility requirements of the grants it administers and its inability to match specific expenditures with child eligibility information on a timely basis. As a result, the state is losing the use of and interest income on state money used to fund federal expenditures. Management concurred with all previous audit findings and promised corrective actions. In response to the prior audit finding, management referred to a new phase of the TNKIDS system and stated:

Phase 2.2 . . . of TNKIDS system development includes the financial operations of the department. The fiscal division is currently meeting almost daily with the Department of Finance and Administration's Office of Information Resources analyst staff developing the business requirements for this system. The target date for implementation of the system is December 2002. It would be cost prohibitive and duplicative for the department to develop an interim computer system for the period until this phase of TNKIDS is operational. As an interim measure the department will be examining the possibility of modifications to allow for an estimate to be determined for the federal draw with an adjustment to actual at a later date. This will require a request to the federal Department of Health and Human Services for approval. In addition, a letter has been submitted to the Department of Finance and Administration requesting an exception to Policy 20.

The department submitted a request to the Department of Finance and Administration (F&A) on February 1, 2001, for an exemption to Policy 20. F&A's response, dated February 13, 2001, granted the exception contingent on approval of the federal government. On May 7, 2001, the department requested approval from the Department of Health and Human Services to modify its drawdown methodology. The department is still awaiting approval for this request and is therefore not exempt from compliance with Policy 20.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, we noted the following:

- Title IV-E – All 60 foster care expenditures and all 40 adoption assistance expenditures tested were charged to the federal grant from 7 to 85 days (an average of 34 days) after the initial transaction was paid with state dollars.
- Social Services Block Grant (SSBG) – Fifty-four of 60 expenditure items tested (90%) were charged to the federal grant from 7 to 210 days (an average of 71 days) after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn continue to cause improper management of the state's cash.

## **Recommendation**

Absent an exemption from Policy 20, the Assistant Commissioner for Fiscal and Administrative Services should ensure that policies and procedures are developed to provide for charging the appropriate federal grant at the time the initial transaction is recorded. Should the Department of Finance and Administration grant an exemption from Policy 20, alternative policies and procedures should be developed and implemented to minimize time lapses between disbursements of state funds and actual drawdowns of federal funds.

## **Management's Comment**

We concur. Departmental fiscal staff is preparing additional information for submission to the U.S. Department of Health and Human Services (DHHS) concerning the requested amendment to the departmental cost allocation plan (see finding response #7) which includes the modification of the federal cash draw procedures discussed above. DHHS has indicated agreement with a daily draw process based on estimated rates determined from historical funding data with a subsequent settlement to actual costs after completion of the quarterly cost allocation process. However, DHHS has recommended the consideration of methods to calculate the estimated rates other than the method proposed by DCS. The methods recommended by DHHS are being reviewed. DHHS has also requested information about other changes in the proposed cost allocation plan amendment that are not related to the cash draw issue. The response to these recommended changes will require a more in-depth discussion with DHHS. DCS will ask DHHS to consider the issues addressing the draw process as a separate amendment from the other issues involving cost allocation. This should facilitate a more timely approval process.

Pending completion of TNKIDS, DCS will implement the following manual process to minimize the use of state dollars to fund federal programs with a later adjustment to federal funding. Voucher registers and journal vouchers that pay for the Foster Care and Adoption Assistance which record the cost to Title IV-E will be submitted to the Department of Finance and Administration (F&A) for process on the same business day. DCS will request F&A to release both the disbursement vouchers and journal vouchers on the same business day. The simultaneous release of the disbursement vouchers and the journal vouchers will minimize or eliminate the use of state dollars for these programs until federal dollars are drawn.

DCS will review and evaluate procedures related to the funding of non-child specific grant programs for the purpose of determining the feasibility of developing and implementing manual procedures for coding non-child specific grants, other than allocated administrative cost, to the appropriate grant code prior to processing by F&A. The primary question will be the time required to do this without an automated system to facilitate the process. This process may only be feasible when the financial phase of TNKIDS is operational.

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## OBSERVATIONS AND COMMENTS

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### **TITLE VI OF THE CIVIL RIGHTS ACT OF 1964**

Section 4-21-901, *Tennessee Code Annotated*, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. The Department of Children's Services filed its compliance report and implementation plan on June 30, 2001.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

On October 15, 1998, the Commissioner of Finance and Administration notified all cabinet officers and agency heads that the Human Rights Commission is the coordinating state agency for the monitoring and enforcement of Title VI.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

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## APPENDIX

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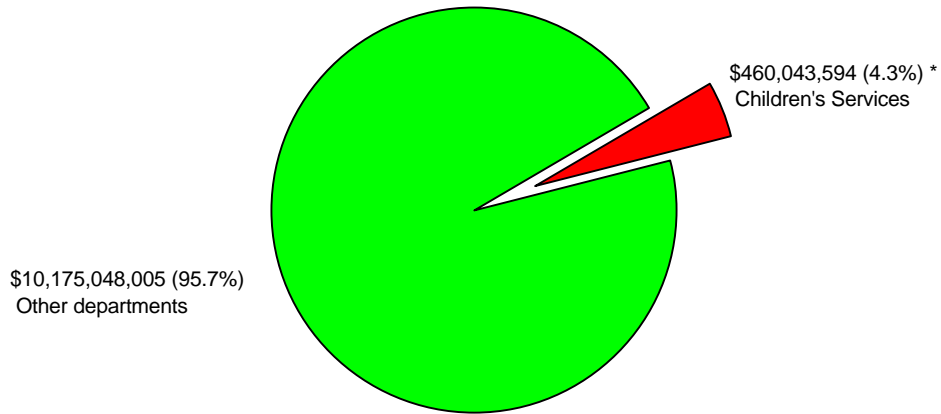
### DIVISIONS AND ALLOTMENT CODES

Department of Children's Services divisions and allotment codes:

359.10	Administration
359.20	Family Support Services
359.30	Custody Services
359.40	Adoption Services
359.50	Child and Family Management
359.60	Wilder Youth Development Center
359.61	Taft Youth Development Center
359.62	Woodland Hills Youth Development Center
359.63	Mountain View Youth Development Center
359.65	Community Treatment Facilities
359.70	Tennessee Preparatory School
359.80	Major Maintenance

## General Fund Expenditures

Fiscal Year Ended June 30, 2001 (Unaudited)

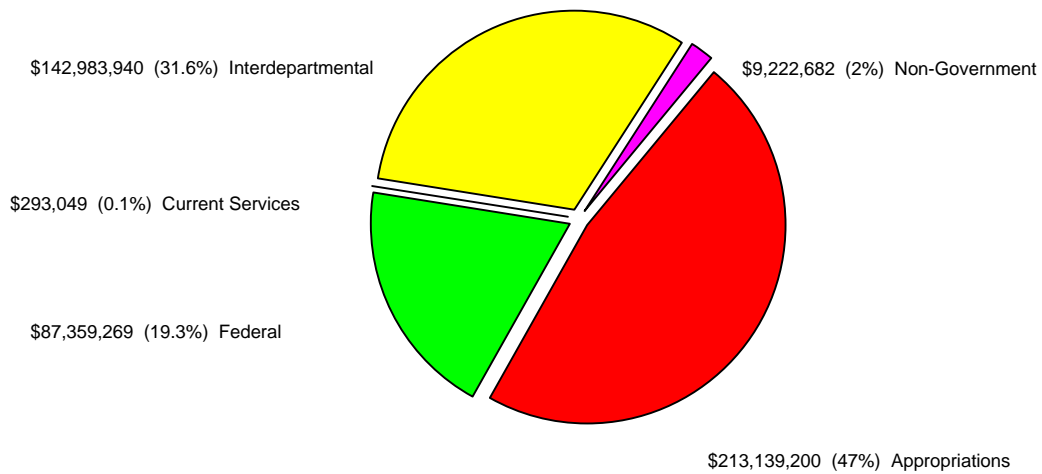


Source: Department of Children's Services

\* Includes operating transfers

## Funding Sources

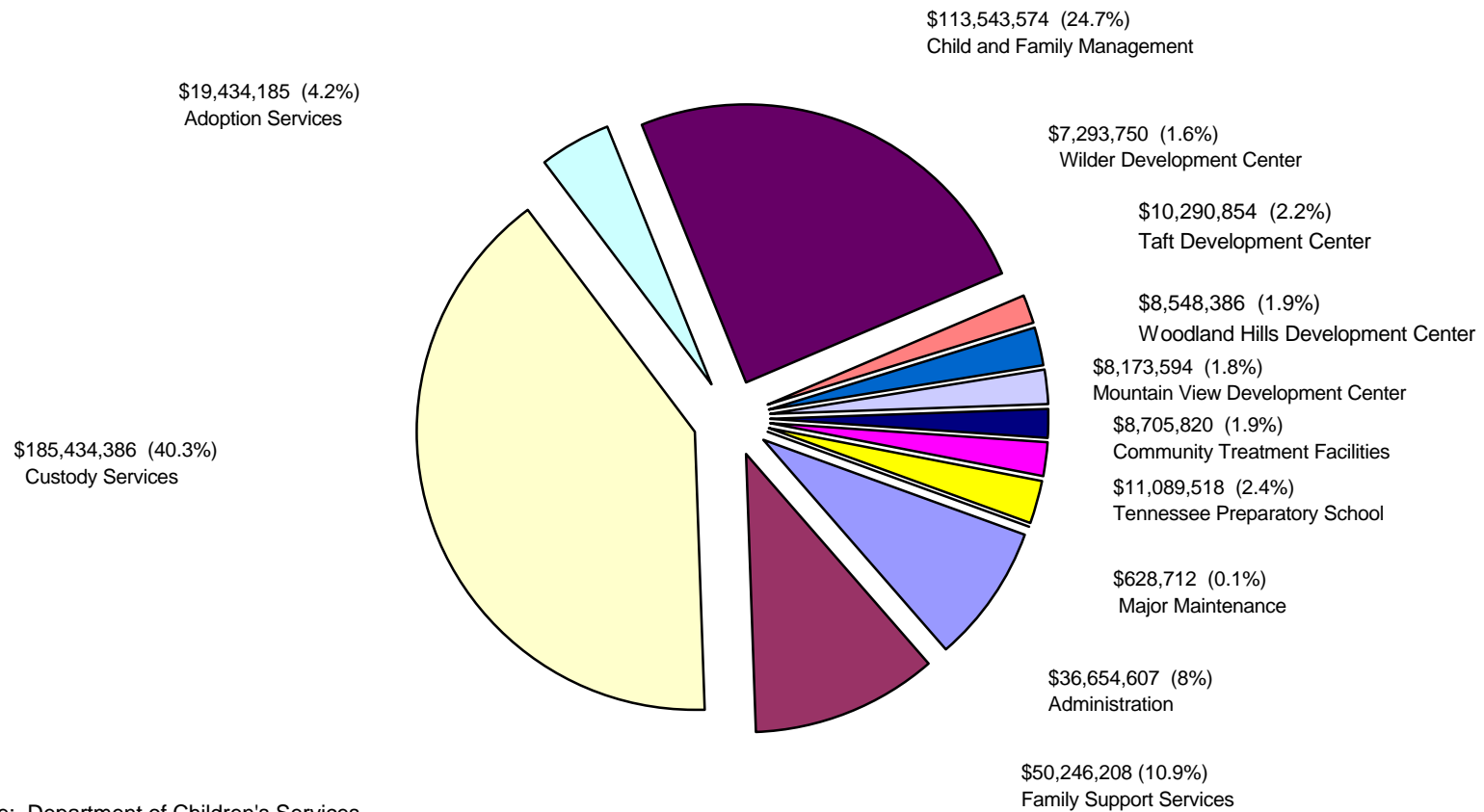
Fiscal Year Ended June 30, 2001 (Unaudited)



Source: Department of Children's Services

# Expenditures by Allotment and Division

Fiscal Year Ended June 30, 2001 (Unaudited)



Source: Department of Children's Services